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# CRS Report for Congress

## Taiwan: U.S. Advanced Fighter Aircraft Sales—Pro and Con

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## **TAIWAN: U.S. ADVANCED FIGHTER AIRCRAFT SALES—PRO AND CON**

### **SUMMARY**

The Bush Administration is considering whether or not to transfer advanced U.S. fighter aircraft to Taiwan. Many in Congress are encouraging the sale as a way to assist the ailing U.S. defense industry while helping to insure Taiwan's air defense. Opponents argue that Beijing may react strongly in ways contrary to U.S. interests, and that the United States can assure Taiwan's defense in ways short of such sales that would not risk the current advantageous exchanges the U.S. conducts with both Taiwan and the mainland.

## **TAIWAN: U.S. ADVANCED FIGHTER AIRCRAFT SALES—PRO AND CON**

### **INTRODUCTION**

President Bush responded on July 30, 1992, to Texas Governor Ann Richards' criticisms that his Administration's opposition to U.S. advanced fighter sales to Taiwan was causing the loss of thousands of jobs in the ailing U.S. defense industry. This was prompted by the announcement on July 29 by General Dynamics that it would lay off 5,800 workers at its Fort Worth, Texas plant by 1994 due to declining orders of F-16 fighters. The President asserted that the Administration was reviewing its policy and taking a "hard look" to see if such sales can go forward in light of existing U.S. agreements.<sup>1</sup> The remarks highlighted a series of recent developments focused on the possible sale of U.S. advanced fighters to Taiwan:

- A bipartisan group of congressional Members have argued in a letter to President Bush that the sale of 150 F-16 aircraft to Taiwan would directly support thousands of jobs in the U.S. aerospace industry;<sup>2</sup>
- Beijing has recently purchased 24 Su-27 aircraft—an advanced fighter—from Russia and is reported to be negotiating for additional purchases;
- Taiwan is negotiating with French representatives about possibly purchasing a number of Mirage 2000-5 aircraft to support Taiwan's air defense;
- Officials at McDonnell Douglas, producer of the U.S. F-18 attack fighter aircraft, have said they anticipate participating in any competition for U.S. fighter sales to Taiwan should the Bush Administration ease its past restrictions on such sales.<sup>3</sup>

Sales of advanced U.S. fighters to Taiwan are seen to have important implications for the U.S. domestic economy, U.S. politics during a Presidential election year, and U.S. relations with both Taiwan and the Peoples' Republic of China (PRC) government on the mainland. Congress plays a direct role in reviewing the sales of U.S. weapons abroad, notably through provisions of the Arms Export Control Act. The Taiwan Relations Act (P.L. 96-8), the law which governs U.S. relations with Taiwan—explicitly states that "The President and Congress" shall determine the nature and quantity of U.S. sales of U.S. defense

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<sup>1</sup> Reported, among others, by Defense News, August 3-9, 1992, p. 3, 26.

<sup>2</sup> Forth Worth Star-Telegram, August 19, 1992, p. 10.

<sup>3</sup> For background, see *New York Times*, August 25, 1992, p. 14; Foreign Broadcast Information Service (FBIS) Daily Report, China, August 3, 1992, p. 7, 83. This report also benefitted from the exchange of views and information among 40 participants at a CRS seminar on this subject, August 13, 1992.

equipment to Taiwan. Members of Congress also are being asked to join in petitions and other efforts to influence the Administration in its review of U.S. policy. This report briefly discusses relevant background to the current situation and reviews arguments in favor and against the sale of advanced U.S. fighters to Taiwan.

## **BACKGROUND**

Taiwan has long sought more advanced fighter aircraft to replace the large number of aging planes in its 400-plane inventory. In the late 1970s, the Carter Administration considered the sale of a new, more advanced fighter, the F-5G, later known as the F-20, for export to Taiwan, but decided to continue with the existing coproduction of the less capable F-5E aircraft on Taiwan. Taipei petitioned President Reagan to sell the F-16, but the Reagan Administration demurred and opted to continue F-5E production in Taiwan until the mid-1980s.

Beijing pressed for even stronger limits on U.S. arms sales, arguing that the sale of U.S. weapons made Taiwan more resistant to PRC overtures for talks on peaceful reunification. Protracted negotiations produced the August 1982 U.S.-PRC communique in which the United States pledged "not to exceed, either in qualitative or in quantitative terms" the level of arms supplied in recent years. The U.S. did so "with the full expectation" that the PRC approach to Taiwan would continue to be peaceful, and with the judgment that the communique was consistent with the Taiwan Relations Act which stated that the President and Congress would decide on U.S. defense transfers to Taiwan.

Subsequently, the U.S. endeavored to remain consistent with the 1982 communique and slowly lowered each year the value of U.S. arms sales to Taiwan (the value is now at around \$600 million per year). To meet Taiwan's air defense needs, the United States transferred some older aircraft (F-104s) and allowed the transfer of defense technology to assist Taipei in developing its own fighter, the so-called Indigenous Defense Fighter (IDF). Although Beijing often complained about the U.S. arms transfers as inconsistent with its view of the 1982 communique, U.S.-PRC relations developed relatively smoothly. In the mid-1980s, the United States even began a \$500 million program to upgrade the capabilities of the PRC F-8 fighter aircraft.<sup>4</sup>

## **FACTORS AFFECTING A POSSIBLE SHIFT IN U.S. POLICY ON ADVANCED FIGHTER SALES TO TAIWAN**

The Administration's decision to review U.S. policy on advanced fighter sales to Taiwan appears to be motivated by a number of factors, including changing U.S. foreign policy and military considerations in the post-Cold War

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<sup>4</sup> For background, see Richard Bush, *Helping the Republic of China Defend Itself*, in Ramon Myers, ed., *A Unique Relationship*, Stanford, 1989; and Martin Lasater, *The Taiwan Issue in Sino-American Strategic Relations*, Westview, 1984.

era, recent trends in U.S. political and economic relations with the PRC and Taiwan, concerns over the effects of decreased military spending on the U.S. economy, and U.S. domestic politics in an election year.

### **Foreign Policy and Military Factors**

- The 1989 Tiananmen massacre and the collapse of the Soviet Union two years later have substantially altered U.S. policy considerations in relations with the PRC and Taiwan
- Relations with Beijing are no longer of utmost importance in U.S. strategy against the Soviet Union, while American leadership, media, and popular attitudes have turned against the repressive Chinese Communist regime. By contrast, Taiwan has made steady progress in democratic political reforms.
- Taiwan's air defense needs seem more pronounced as a result of Beijing's acquisition of 24 Su-27 fighters from Russia, possible future PRC deals with Moscow, and production and other difficulties involving Taipei's IDF. In response, Taipei has sought advanced fighters from the U.S. and others, with French representatives showing keen interest in selling Mirage-2000-5 planes to Taiwan.

### **Economic and Political Factors**

- U.S. trade relations with China over the last few years have been strained, due largely to a significant deterioration in the U.S. balance of trade with China. The U.S. balance of trade with China went from a \$1.7 billion surplus in 1981 to a \$12.7 billion deficit in 1991, the second highest U.S. bilateral trade deficit after Japan. In 1992, the U.S. trade deficit with China may rise to nearly \$20 billion. In addition, trade disputes have arisen over China's alleged major trade barriers to U.S. exports, violations of U.S. intellectual property rights, illegal textile transshipments, and Chinese exports to the United States of products utilizing forced labor. Such disputes have led the United States to threaten China with possible trade sanctions.<sup>5</sup>
- U.S. trade relations with Taiwan, on the other hand, have improved in recent years, due in part to an improvement in the U.S. balance of trade with Taiwan. The 1991 U.S. trade deficit with Taiwan at \$9.8 billion was over 43 percent below its 1987 level of \$17.4 billion.<sup>6</sup> In

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<sup>5</sup> For additional information, see CRS Issue Brief 91121, China-U.S. Trade Issues.

<sup>6</sup> The 1991 U.S. trade deficit with Taiwan, however, still represented the third largest bilateral trade deficit for the United States. See CRS Issue Brief 92038, *Taiwan: Recent Developments and U.S. Policy Choices*.

addition, Taiwan grew from the 15th largest purchaser of U.S. exports in 1981 to the 9th largest in 1991. Finally, since 1986, Taiwan has taken a number of steps to reduce its world trade surplus, including reducing trade barriers, removing exchange rate controls, and encouraging purchases of U.S. goods.

- Taiwan has become an important economic and world trade power: it is the 12th largest world exporter and the 16th largest importer.<sup>7</sup> As the world's largest holder of foreign exchange (over \$84 billion), Taiwan can easily afford to purchase big-ticket items. In addition, Taiwan has embarked on a massive domestic spending program of \$303 billion over six years to upgrade its infrastructure. Foreign firms are expected to be eligible to bid on between \$45-\$50 billion worth of these contracts. Many Taiwan observers argue that the country which supplies Taiwan with jet fighters could be awarded a significant amount of these contracts.
- Declining defense spending in the United States (and other countries) in recent years has already caused sharp reductions in employment in U.S. defense-related industries (including the aerospace industry). These reductions are believed to have had a negative effect on the U.S. economy in recent years, and many economists project that continued cuts could dampen economic growth in the near future.<sup>8</sup> Promoting U.S. military exports (such as jet fighters to Taiwan) is seen as one way of helping U.S. defense industries deal with defense cuts, remain internationally competitive, and maintain employment levels.
- Concern in the United States over job losses in defense industries has become a political issue in the current presidential campaign, and hence has increased pressure for a change in U.S. policy on advanced fighter sales to Taiwan in order to preserve American jobs. Officials at General Dynamics estimate that the sale of F-16 fighters to Taiwan would save over 3,000 jobs at its Fort Worth Division that are scheduled for termination. According to General Dynamics estimates, the sale of 150 F-16s to Taiwan would generate \$10.2 billion in income for the U.S. economy over 20 years. Of this amount, \$5.2 billion would be directly generated from the sale of the planes, plus spares, supplies, munitions, and 20 year operations and support costs. In addition the sale would generate \$5.0 billion in indirect income through spending in the community by workers of defense firms and suppliers. Finally, General Dynamics estimates that the sales would generate 207,559 man-years of direct and indirect employment

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<sup>7</sup> Based on 1990 trade data as reported by the General Agreement on Tariffs and Trade (GATT) in *International Trade 90-91*, Volume 1, p.11.

<sup>8</sup> Over the long-run, however, many analysts predict that reductions in defense spending (if used for deficit reduction) will benefit the U.S. economy. For example, see the *Economic Effects of Reduced Defense Spending*, Congressional Budget Office, February 1992.

throughout the U.S. economy over 20-years (comparable to over 10,000 full-time jobs over 20 years).<sup>9</sup>

## ARGUMENTS IN FAVOR OF THE SALE<sup>10</sup>

**U.S.-PRC relations**—Beijing will be compelled to accept the sale without major disruption of U.S.-PRC relations. Retaliation in the form of military actions in the Taiwan Strait, boycott of U.S. aircraft, wheat or other purchases, and/or a more pronounced effort to proliferate weapons of mass destruction would probably damage PRC interests more than those of the U.S. The U.S. Government could soften the impact of the sales to Taiwan on the PRC through such initiatives as stronger support for the PRC continuing to receive MFN tariff treatment in the United States, for PRC entry into GATT, more frequent U.S. official visits to Beijing or strong reaffirmation of the U.S. adherence to a "one China" principle supported by Beijing. U.S. officials could make the case that U.S. sales of F-16 fighters are less provocative than a possible sale of Mirage-2000s, with their longer range; that Beijing provoked the U.S. response by acquiring the advanced Su-27 combat planes from Russia; and that the United States remains consistent with its interpretation of the 1982 communique as it is replacing no longer operable aircraft with the comparable planes now available.

**U.S.-Taiwan**—The sales would show support for a longstanding friend and former ally, maintain the air defense balance in the Taiwan Strait, and encourage greater U.S. involvement in Taiwan's \$303 billion six-year infrastructure program. On the latter point, press reports disclosed that France wished to link its sale of Mirage-2000s to access to Taiwan's large development projects—projects on which U.S. contractors are also bidding. In addition, the sales could put a sizable dent in the U.S. trade deficit with Taiwan (which stood at \$9.8 billion in 1991).

**U.S. domestic**—The sales would support U.S. jobs in the ailing defense industry and would also have a multiplier effect throughout the rest of the economy.<sup>11</sup> Politically, the sales would presumably redound to the credit of the U.S. officials responsible for the economic benefit.

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<sup>9</sup> Note, there are no independent estimates of the effects the F-16 sale would have on the U.S. economy.

<sup>10</sup> The arguments were reviewed at the CRS seminar on this issue, August 13, 1992.

<sup>11</sup> The production of aircraft in the United States affects a broad range of industrial sectors, directly and indirectly, throughout the U.S. economy. See Library of Congress, Congressional Research Service, *Airbus Industrie: An Economic and Trade Perspective*, by John W. Fisher, et al. February 20, 1992, p. 43.

## ARGUMENTS AGAINST THE SALE

***U.S.-PRC relations***—Beijing may not react "rationally," from a U.S. perspective. Taiwan is a sensitive political issue in Chinese domestic politics and Chinese leaders are in the midst of a leadership struggle and are jockeying for power leading up to the Chinese Communist Party's 14th Congress in late 1992. Under these circumstances, Beijing might choose to resort to forceful measures in the Taiwan Strait, retaliate against U.S. imports, downgrade diplomatic relations with the U.S., or engage in human rights, proliferation<sup>12</sup> or other practices antithetical to U.S. interests. Such behavior would alarm U.S. allies and associates in Asia, who are more inclined to accommodate than confront their giant neighbor. In addition, China might attempt to reduce economic and trade ties with the United States, such as retaliating against U.S. exports and investment. For example, China could reduce purchases of U.S. commercial aircraft and turn to other foreign suppliers such as the European Airbus Industrie. Some analysts predict that China will be the fourth largest purchaser of commercial aircraft by the year 2010; hence, significant future U.S. aircraft sales could be lost. China could also choose to cancel its recently announced \$1.2-billion joint production venture with McDonnell Douglas Corporation. This would be a big blow to that company, which has been financially strapped for cash. Over the longer term, the sale could be seen as an egregious example of American duplicity over an issue of strong national interest among leaders of various political persuasions in China. As such, it could sour U.S.-China relations for some time to come.

***U.S.-Taiwan relations***—The United States can endeavor to keep the air defense balance in the Taiwan Straits by pressing Beijing and Moscow against further sales of advanced fighters, by strengthening U.S. support for Taiwan's troubled IDF program, and by upgrading U.S. missiles, radars, and other air defense transfers to Taiwan. U.S. officials can explain to Taipei that a possible arms race and heightened tension in the Taiwan Straits appear not in their best interests. U.S. access to Taiwan's large-scale infrastructure program can be assured through means other than fighter sales such as more higher level U.S. official visits to Taiwan, increased resources for Government export promotion programs to assist U.S. firms in exporting to Taiwan, greater U.S. support for Taiwan's entry into GATT, and other means.

***U.S. domestic***—The short-term decline in the U.S. defense industry can be offset to some degree by the longer-term U.S. access to the emerging China market on both sides of the Taiwan Straits. PRC purchases of U.S. aircraft, autos, commodities, and other products are likely to grow as Chinese businesses decide how to spend their foreign exchange—Beijing is now the fifth largest holder of foreign exchange. While decreases in defense spending in the United States are likely to continue to lead to layoffs in the near future, the

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<sup>12</sup> U.S. officials have devoted strong efforts recently to get China to sign agreements on missile, nuclear and other proliferation issues. If the U.S. seems to back away from its commitments regarding arms sales to Taiwan, according to the PRC perspective, Beijing may be more inclined to back away from its commitments on proliferation and other questions.

Government can increase resources for retraining and relocating displaced American workers into other sectors of the economy. Regarding the impact on U.S. Presidential politics, a careful review of U.S. interests regarding new arms sales to Taiwan would take time, allowing the government to safely defer a decision until after the Presidential elections.